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SUBJECT: Iceland: Progressive Party Elects New Leadership; Clears
Decks for Forward-Looking Security Cooperation

REFS: A) Reykjavik 196
B) Reykjavik 205
C) Reykjavik 279

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¶1. (SBU) Summary: At an August 19 congress, the Progressive Party (PP - the minority member in Iceland's ruling conservative coalition alongside PM Haarde's Independence Party), replaced former PM Asgrimsson as party chair with Minister of Industry and Commerce Jon Sigurdsson. Party rank and file and most media shrugged off Asgrimsson's farewell speech slamming the USG over the impending closure of Naval Air Station Keflavik, instead focusing on whether Sigurdsson's charisma will suffice to reverse the party's decline under Asgrimsson. We believe Sigurdsson will be open to cooperation with the U.S. on modernizing security ties and strengthening trade, but should he fail to reverse the PP's slide by the May 2007 national elections, Haarde may be forced to seek another coalition partner - one more to the left and less open than the Progressives to close bilateral security ties with the U.S. End summary.

Halldor Bows Out - But Not Quite Gracefully

¶2. (U) Iceland's Progressive Party (PP) held a party congress 18-19 August to elect new leadership after the Progressives' embarrassing performance in nationwide municipal elections this May (Ref A). On 5 June, PP Chairman Halldor Asgrimsson announced his resignation as Prime Minister and his plans to resign from his party seat upon election of new party leadership in August (Ref B).

¶3. (SBU) Asgrimsson used his farewell speech at the congress to take a parting shot at the U.S., describing the decision to withdraw U.S. troops as "a breach of confidence." Asgrimsson said his former Independence Party (IP) colleagues in the coalition had been most guilty of having "blind faith" in the U.S. Local press coverage of the speech was mostly matter-of-fact; only opposition-leaning newspaper Frettabladid fronted Asgrimsson's criticism of the U.S. Rather, most coverage - and PP rank-and-file attendees polled by Poloff - portrayed the speech as a less than distinguished final act to Asgrimsson's long political career.

A New Hand at the Helm, but How Much Will Change?

¶4. (SBU) In the leadership elections 19 August, Minister of Industry and Commerce Jon Sigurdsson easily won the race for PP Chair over Minister of Health Siv Fridleifsdottir, who as party secretary through the May elections had shared the blame for the PP's poor showing. Sigurdsson, an economist and Central Bank Governor before entering politics, pledged to build unity within the party while respecting the work of his predecessor Asgrimsson. Minister of Agriculture Gudni Agustsson retained his post as Vice Chair in an

apparent show of support for the party's defense of agricultural subsidies - a policy which the increasingly urbanized population does not hold so dear.

¶5. (U) Public discussion was divided on whether Sigurdsson can reverse the party's decline. Morgunbladid, which generally reflects the views of PM Haarde's IP, editorialized that Sigurdsson's election gave the PP a great chance to get back on its feet. Conversely, Frettabladid opined that Sigurdsson's platform breaks no new ground, and that retaining the same Vice Chair will only solidify the party's stagnation.

¶6. (SBU) In recent statements - including to Ambassador last month (ref C) - Sigurdsson has given little indication that he would attempt to change his party's focus. Newly-elected PP Secretary Saeunn Stefansdottir confirmed to Poloff after the congress that she anticipates little change in the party's platform, but expects that the "atmosphere within the party will be much different," in terms of generating enthusiasm among the party faithful. The first post-congress opinion poll on 23 August registered little change in PP's support.

Comment

¶7. (SBU) It is too soon to say whether Sigurdsson's charisma will suffice to win back voters who have abandoned the party. The PP suffers from an image as "the party of elderly farmers" at a time when Iceland's shifting demographics have eroded the Progressives' traditional base. The PP has thus far failed to give urban conservative voters a reason to choose it over the Independence Party, which is seen as more confident and forward-looking.

¶8. (SBU) We believe that Sigurdsson will be open to close cooperation with the U.S. on security and trade. In the short term, Asgrimsson's departure should help the pragmatic Haarde's effort to work with us on refocusing bilateral security cooperation from a

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Cold War paradigm toward emerging threats such as terrorism. Yet if Sigurdsson is unable to reverse the PP's slide, the May 2007 national elections - which Independence is likely to dominate but without winning a clear majority - may leave Haarde no choice but to partner with the Social Democratic Alliance or even the Left-Green Party. Such a coalition would likely be less enthusiastic about close bilateral security ties with the U.S., looking more toward NATO and the EU for support.

van Voorst